

Labor Market Policies to Confront Structural Change

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Peterson Institute for International Economics (PIIE) and the International Monetary Fund (IMF)

Rethinking economic policy: Steering structural change

Local labor market impacts of import competition grow over time

Earnings

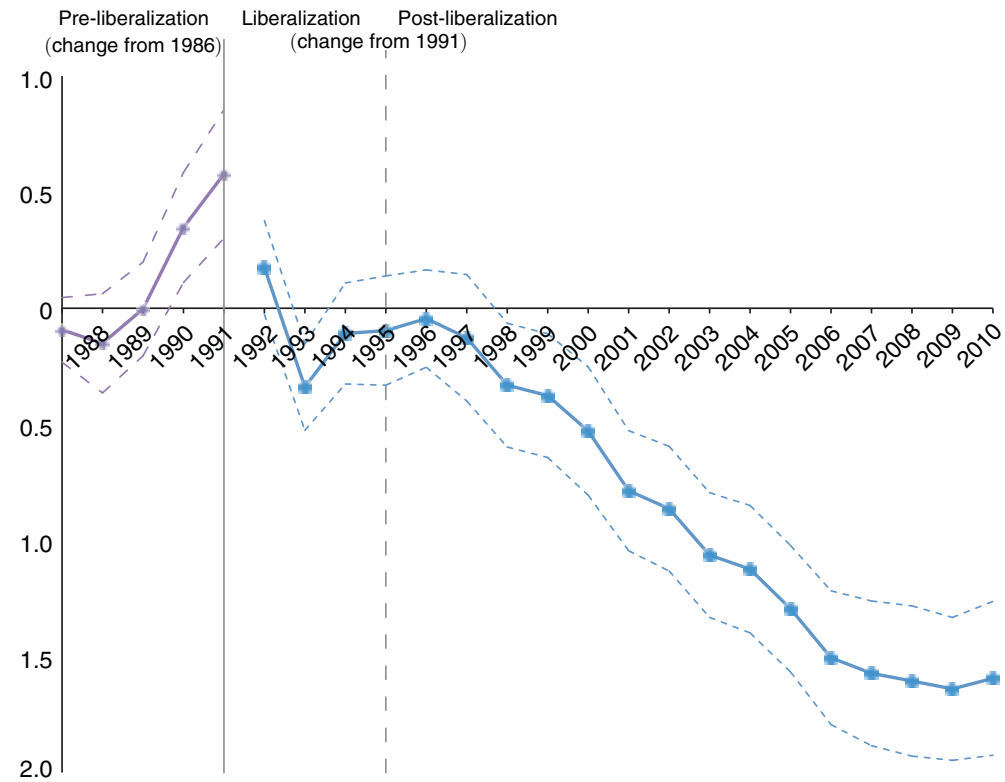


FIGURE 3. REGIONAL LOG FORMAL EARNINGS PREMIA, 1987–2010

Employment

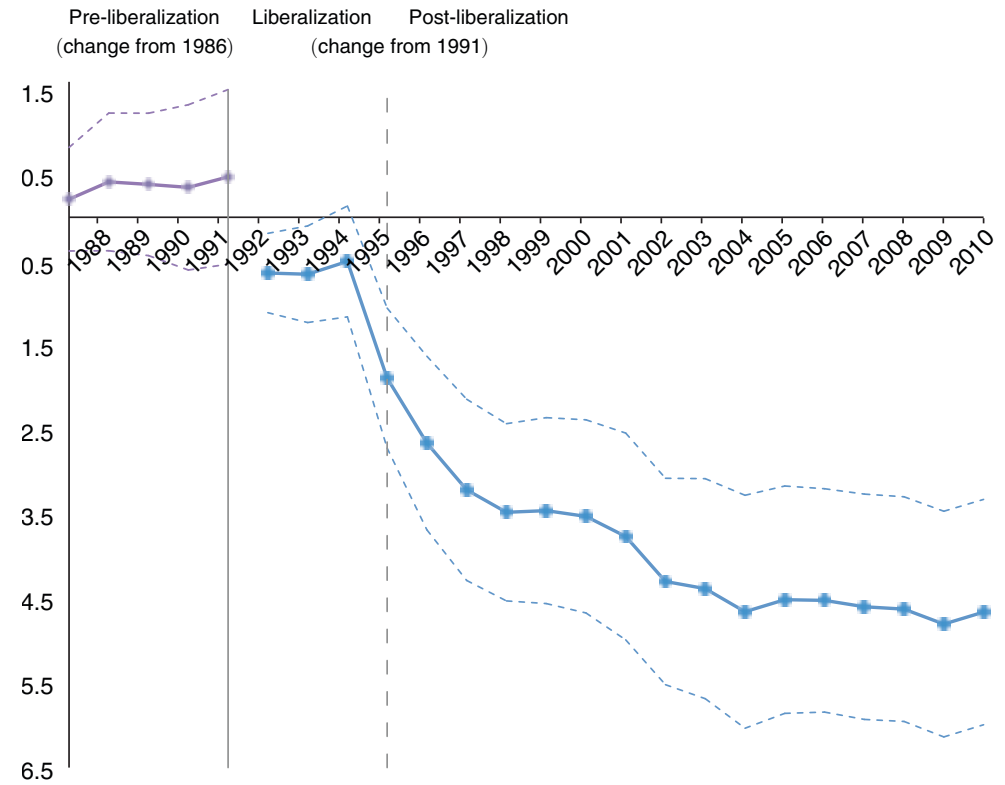


FIGURE 4. REGIONAL LOG FORMAL EMPLOYMENT, 1987–2010

Similarly persistent effects of the “China Shock”

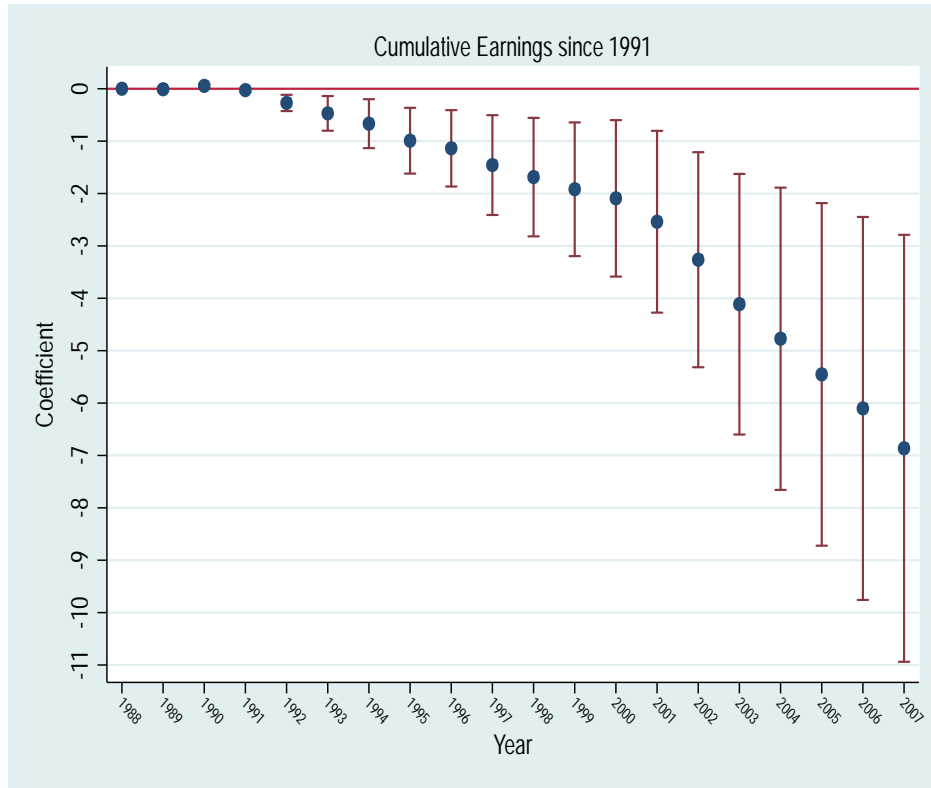


FIGURE III

Autor, Dorn, Hanson, and Song (2014)

C. Total wage and salary employment/ working-age population

2000–2012 shock impact on wage &
salary employment/population 18–64
(2002 to 2019)

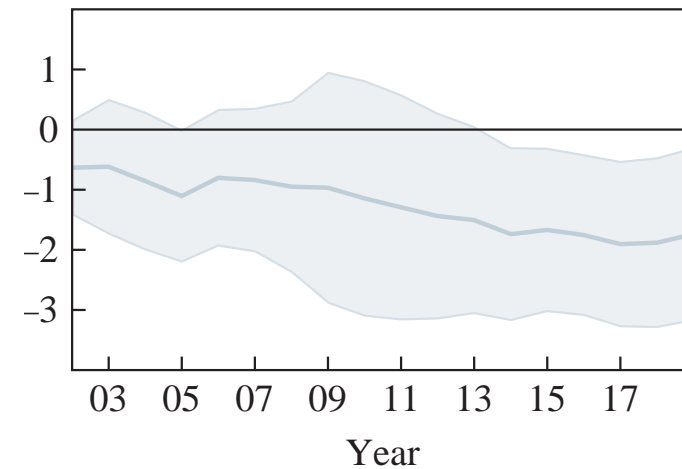


Figure 5. Trade Shock Impact on Employment, 2001–2019

Autor, Dorn, and Hanson (2021)

Persistently negative effects of job loss

- **Large earnings and wage declines** (Jacobson LaLonde Sullivan 1993, Stevens 1997, Kletzer 1998, Couch and Placzek 2010, Schmieder and von Wachter 2010, White 2010, Davis and von Wachter 2011, von Wachter Handwerker Hildreth 2012, Flaaen Shapiro Sorkin 2019, Schmieder von Wachter Heining 2019)
- **Persistent non/unemployment** (Ruhm 1991, Chan and Stevens 2001, Song von Wachter 2014)
- **Lower wealth** (Stevens and Moulton 2013)
- **Lower educational achievement of children**
(Oreopoulos Page Stevens 2008, Stevens and Schaller 2011, Rege Telle Votruba 2011)
- **Political polarization** (Autor Dorn Hanson Majlesi 2020)
- **Increased mortality** (Sullivan and von Wachter 2009, Pierce and Schott 2020)

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- **Political polarization** (Autor Dorn Hanson Majlesi 2020)
- **Increased mortality** (Sullivan and von Wachter 2009, Pierce and Schott 2020)
- **Particularly negative effects when displaced into a weak labor market**
(Schmieder von Wachter Heining 2023)

Effects of active labor market policies

- Many literature reviews and meta-analyses of evidence on labor market policies
 - Card, Kluve, and Weber (2010, 2018)
 - Crépon and van den Berg (2016)
 - Cahuc (2018)
 - Brown and Freund (2019)
 - ...
- Stylized facts
 - Wide variation in estimated effects, unexplained by program features or evaluation methods
 - Public-sector employment subsidies least favorable
 - Job-search assistance, worker training, and private employment subsidies more favorable, though highly variable across studies

Worker training appears more effective than it did in the past

1. Longer outcome data series and improving effects over longer time horizons
(Card, Kluve, and Weber 2018)

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2. Improvements on selection-on-observables designs
 - Hyman (2018) on job training under US Trade Adjustment Assistance
 - Humlum, Munch, and Rasmussen (2023) on classroom training in Denmark

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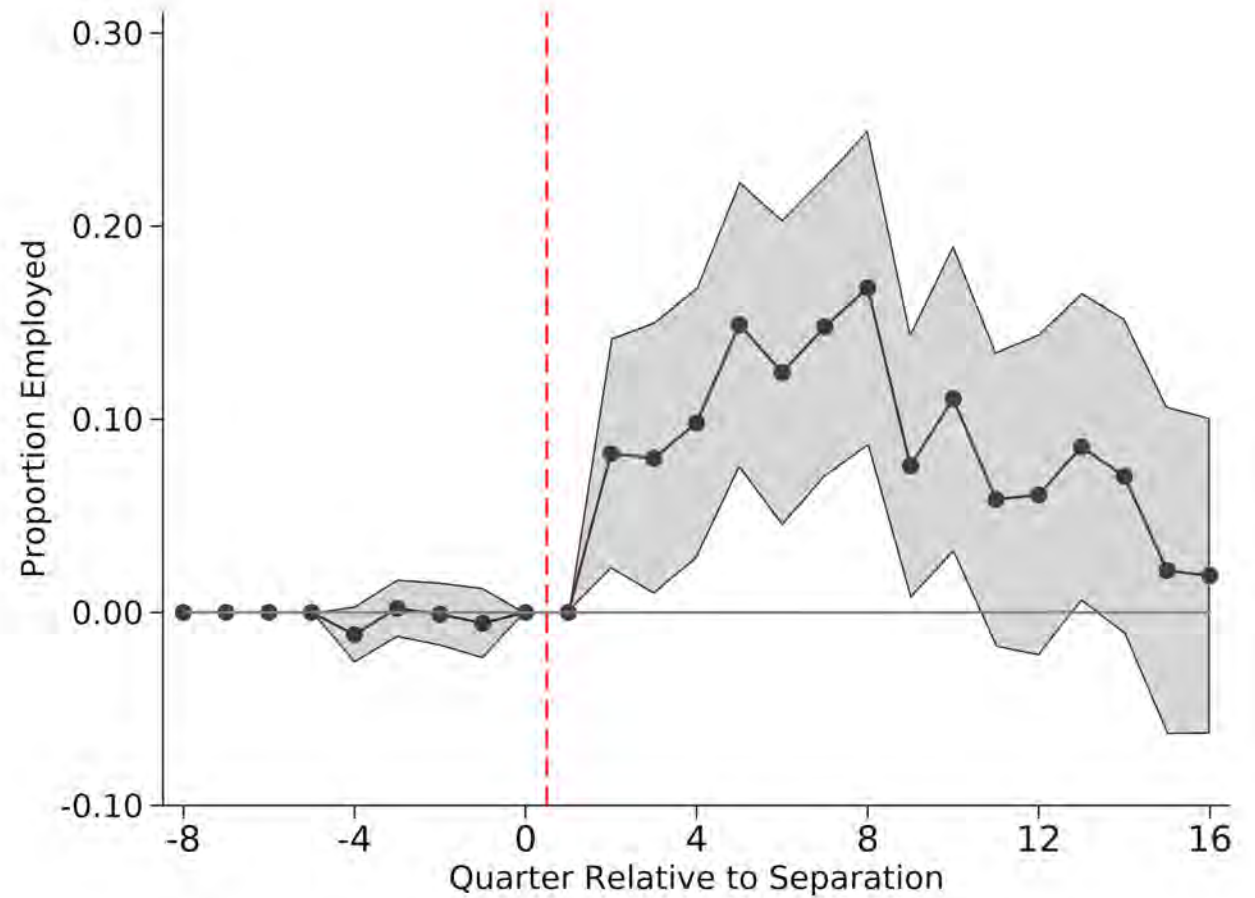
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3. Improved training approaches (Katz, Roth, Hendra, and Schaberg 2022)
 - Targeting growth industries and occupations
 - Focusing on credentials and transferrable skills
 - Worker screening and wrap-around services

Work-incentive policies

- Illinois Reemployment Bonus experiment (Woodbury and Spiegelman 1987)
- Wage insurance under US Trade Adjustment Assistance (Hyman, Kovak, and Leive 2024)
- Canadian Self-Sufficiency Project (Card and Hyslop 2005; Michalopoulos, Robins, and Card 2005)

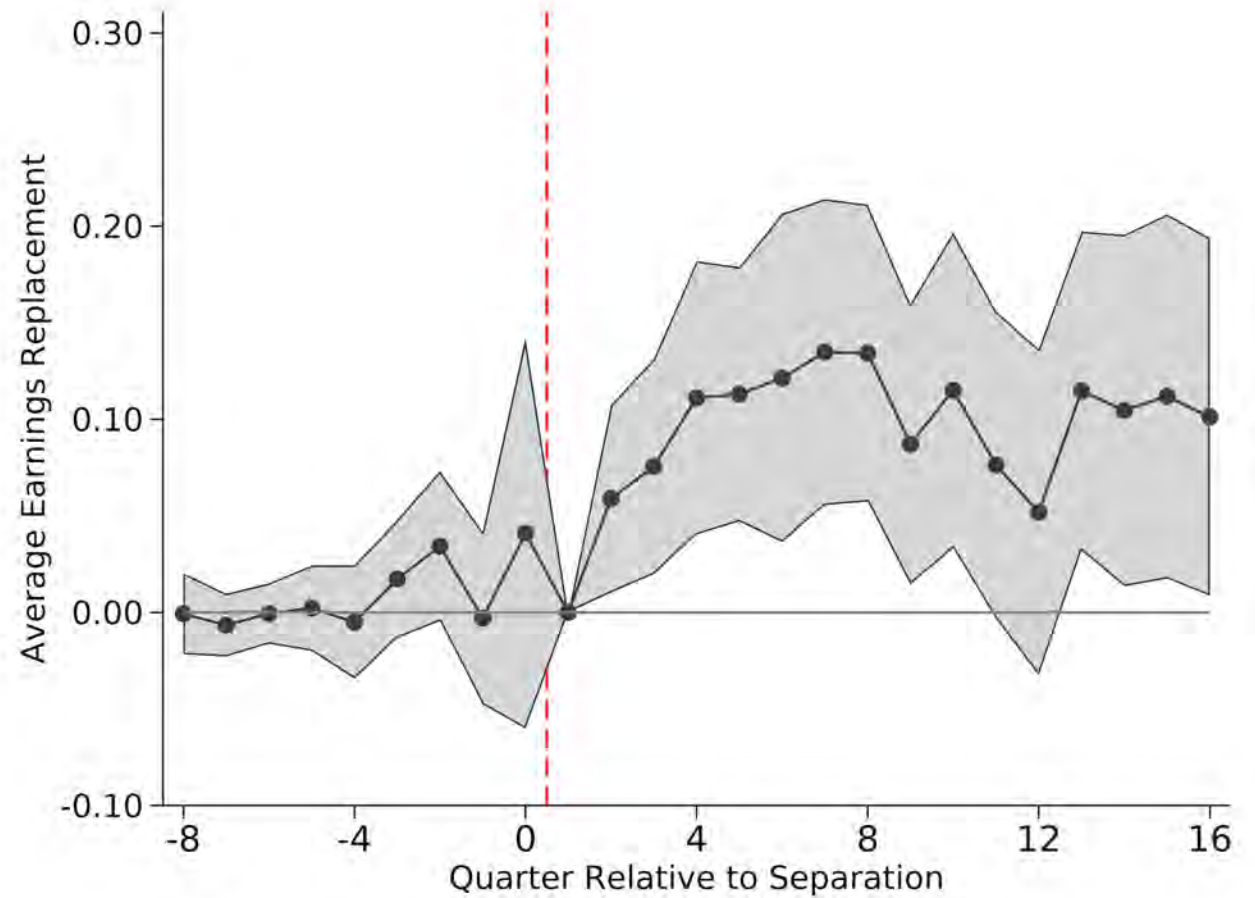
Wage insurance under RTAA

- Wage insurance eligibility increases employment in the first 2-3 years following displacement



Wage insurance under RTAA

- Wage insurance eligibility persistently increases earnings as a share of pre-displacement earnings by \approx 10 percentage points



Wage insurance under RTAA

- Cumulative earnings increase over 4 years post-displacement by \$18k (26%)
- Shorter unemployment durations
- No evidence of declines in wages or job quality
- The program is self-financing by increasing tax revenue and reducing benefits

Generalizability

- Reemployment bonus experiments in NJ, PA, and WA failed to live up to excellent results in IL (Meyer 1995)
- Implementation details matter – minimal effects of wage insurance programs in Canada (Bloom et al. 2001) and Germany (van den Berg Homrighausen Stephan 2016)

Scaling up

- Will employers lower wages or change vacancy-creation behavior?
- Will gains to participants come at a cost to non-participants?
(Crépon, Duflo, Gurgand, Rathelot, and Zamora 2013)
- Can successful programs attract much larger numbers of participants?
- Sustainable funding streams?

